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STATEMENT OF

AL FOWLER

National Association of Postmasters of the United States

Mr. Chairman, members of the Committee - my name is Al Fowler. I am the Postmaster for Columbia, Maryland. Today I am appearing on behalf of the National Association of Postmasters of the United States. Appearing with me is Mr. Thomas R. Roth, economic consultant to our organization.

We greatly appreciate this opportunity to testify on behalf of the nation's 29,700 Postmasters regarding the critically important issue of designing a new retirement system for Postal employees and other Federal employees covered by Social Security. In developing our position in this matter, NAPUS has outlined several important objectives or standards against which any proposed plan should be judged. We have carefully examined the retirement program set forth in S. 1527 introduced by Senators Ted Stevens and William V. Roth in connection with our major objectives and, regrettably, have come to the conclusion that we cannot support that proposed plan in its present form.

Central to our position is the need to preserve pension compensation at the level represented by the current CSRS. NAPUS has advocated, from the outset, a pension program which would set pension compensation for Social Security-covered employees at the same level as non-Social Security-covered employees by equalizing employer pension costs between the two groups. In determining the "equal value", we endorse the employer-normal-cost approach developed by the Congressional Research Service (CRS) in its December 1984 report on designing a retirement system for federal workers covered by Social Security. Accordingly, the new supplemental plan (exclusive of Social Security) should carry a normal cost to the employer of approximately 18.64 percent of payroll. Under the CSRS actuarial cost model, this equals the employer's normal cost of CSRS, net of administrative expense (.05%), and the cost of unique provisions for special groups (.45%), less the employer's normal cost for Social Security (6.06%).

The Stevens-Roth proposal would establish an employer cost of approximately 14.7 percent. This represents a cut in pension compensation for Postmasters of over 21 percent. Moreover, a full 3.0 percent of the 14.7 percent is supposed to come in the form of a voluntary capital accumulation program. The estimated 3.0 percent value assigned to the capital accumulation program assumes average participation of 60 percent. We doubt that the Postmasters' participation rates will be this high; therefore, the overall value of the proposed plan is exaggerated to begin with.

The point is that the main elements of the proposed plan must be substantially upgraded simply to preserve that portion of total compensation presently devoted to retirement income. The principle of equal-pay-for-equal-work among all postmasters, regardless of their date of appointment, is perhaps an old fashioned idea yet fundamentally important goal in compensation policy which must be pursued here. NAPUS unavoidably must oppose the Stevens-Roth bill, or any other, which seeks to cut pension compensation for new employees through the establishment of a supplemental plan which, when added to Social Security, falls far below the present Civil Service standard.

What is most disturbing is that the Stevens-Roth proposal accomplishes this cut in pension compensation by watering down or eliminating certain important features of the present CSRS. Notably, the proposed plan worsens the eligibility requirements for unreduced retirement benefits. Presently, employees can retire at age 55 with 30 years of service, at age 60 with 20 years or at 62 with 5 years. Under the new plan, unreduced retirement is available only upon attaining 62 years of age with 5 years of service. Retirement before age 62 results in significant benefit reductions.

There is no evidence to support the notion that liberal eligibility rules are excessively costly or cause a mass exodus of eligible workers. The fact is that early retirement is not convenient or desirable for every worker. The vast majority of employees eligible for early retirement prefer to continue on the job -- to realize higher pension benefits and complete a full worklife. The latest OPM data show that federal workers retiring under the 55/30 rule make up only 26 percent of all annuitants; the average service of this group is 34.4 years -- a complete worklife by any standard. Overall, the average age of federal annuitants on the date of retirement is 61.0 for normal retirement. Moreover, there is no apparent difference between retirement patterns under CSRS and those typical in American industry. For example, 75 percent of all workers retiring voluntarily under Social Security today do so before reaching age 65. A survey of corporate experience conducted by the actuarial consulting firm Johnson and Higgins found that the average retirement age was 61.8 among 72 responding companies; 63.4 percent retired before age 65.

Obviously, some individuals retire at the first opportunity. Early retirement is important for some people. For individuals who can no longer tolerate the strain and pressures of work, the 55/30 rule provides a useful and desirable alternative. It is an extremely important feature of the current plan which should be preserved in the new supplemental program.

The value of the present post-retirement escalation clause is also greatly diminished under S. 1527. Presently CSRS retirees receive adjustments equal to changes in the CPI. Under the proposed plan, annual adjustments will be limited to 2 percentage points less than changes in the CPI.

The full percentage escalator provision in the current CSRS in one of the most significant features of the plan. To be sure, a retirement benefit which may otherwise be adequate at the point of retirement, will steadily dissolve in real terms over a person's retirement life if not adjusted in accordance with advancing prices. The provisions of S. 1527 guarantee a drop in the real value of annuities by 2 percent per year. Over the average life expectancy of a retiree, this amounts to more than a 46 percent cut! Changes in certain key features of the present CSRS of this kind make the proposed plan unacceptable to the nation's Postmasters.

We are, of course, aware of those who criticize the CSRS for its alledged high costs and unique provisions. We acknowledge, for example, that eligibility requirements for normal retirement and post-retirement adjustment provisions under the CSRS are not found in the "average" private sector plan. Consequently there is some evidence that the overall costs, or value, of the CSRS today exceeds that which is typical in under non-government systems. For instance, the Hay Group's study of total compensation in the Federal State and Private Sectors, prepared for the House Committee on Post Office and Civil Service, shows that the employer-provided cost of the CSRS is 24.7 percent of payroll compared to 18.3 percent for the average private sector retirement system (including Social Security). But this gap has narrowed tremendously over the years and continus to close as private sector programs rapidly expand and become increasingly more adequate in providing retirement income. The CSRS was never intended to be the average program. The CSRS was established in 1920 when less than 7 percent of private sector workers were covered by a pension program. For decades it served as a model for private industry as a device to enhance efficient business operation by providing for comprehensive employee income protection, and as an efficient method for removing from active employment workers whose age or infirmities hindered job performance.

Yet the government's leadership role in this area is rapidly diminishing. The principle features of the CSRS -- e.g., the 55/30 rule was added in 1967; hi-3 became effective in 1969; the automatic escalator provision was established in the 1963 -- have remained the same for nearly 20 years during a period when private sector retirement plans developed most rapidly. In view of this trend in liberalizing private sector programs, there is no reason to cut back on the federal system in order to establish pension comparablity.

Significantly, when total compensation is examined, federal workers have already fallen far behind their private sector counterparts. The Federal Pay Comparability Act of 1970 (P.L. 91-656) was designed by Congress to provide an equitable and fair method for setting Federal pay by comparing adequate rates to those in the private sector. Two weeks ago the President's Pay Agent reported that "under existing comparability Law, the computation based on this year's survey indicates an upward adjustment in Federal pay rates varying by grade level from a low of 18.35 percent at GS-3 to 20.85 percent at GS-15. The overall average increase would be 19.15 percent"!

The uninformed assume that this enormous pay gap will disappear when the presumably generous benefit structure in federal employment, including the CSRS, is taken into account. This is simply not the case. The public perception of the benefit structure in federal service was formed in the early 1960's when indeed it was enviable by private employment standards. But the basic elements in the civil service and postal service benefit package have been the same for over 20 years. Progressive change and constant liberalization has characterized the development of private sector benefit plans over the past few decades while in the federal sector, benefits have stayed the same or have been worsened.

The Hay study, cited earlier, found that death benefits, disability income replacement benefits and health benefits, are now significantly lower in the federal government than in the private sector. Any advantage gained under the CSRS is all but eliminated when the deficiencies elsewhere in the fringe benefit programs are included. When total compensation is examined, there is no escaping the conclusion that federal workers are already paid less than their cohorts in private industry. The Hay study put it in these terms:

> Since cash compensation and fringe benefits other than retirement are more valuable in the private sector, the total compensation perspective shows that Federal employees' total compensation is <u>7.2% behind the private sector on average</u>. As a result, even if a supplemental retirement system is linked with social security to produce benefits that are <u>comparable</u> to those available to Federal employees hired before January 1, 1984, the total compensation available to new Federal employees will also lag the private sector. Federal employees' total compensation is 7.1 percent ahead of the total compensation of State employees. When the two data bases are combined, the total compensation of Federal employees lags the total compensation of other employees by 6.2 percent. It is expected that the 1985 update of this analysis will increase the advantage of private sector total compensation to <u>9 percent or more.</u>

The Stevens-Roth proposal cuts of pension compensation from the present 24.7 percent to 20.6 percent of payroll, thereby widening the federal lag in total compensation behind the private sector model by an additional 4.1 percent of pay. In view of the already serious gap between federal and private compensation, reducing the pension portion of compensation to conform to private sector levels is simply unfair and unjustifiable.

Thus far we have focused our comments on the all important objective of maintaining pension compensation at a level equal to the value of the present CSRS. There are, of course, several other important issues regarding the specific design of the new retirement system which have not been discussed. Two design issues -- the method of Social Security integration and the role of the capital accumulation program -- require attention at this time.

We know that, under the present CSRS, the relationship between pension income and preretirement earnings is the same across all income levels. Social Security, on the other hand, replaces a higher proportion of preretirement earnings for those at the lower end of the income scale. The Stevens-Roth proposed plan preserves this Social Security "tilt" completely by making basic retirement benefits fully additive to Social Security.

This creates a particularly vexing problem for NAPUS. Our organization represents Postmasters with an average annual salary of approximately $30,000. Salaries range, however, from under $4,500 to over $60,000. We represent part-time Postmasters in the rural areas whose salaries are predicated on 2 to 6 hours of work per day, together with some of the highest paid postal managers, responsible for the entire operation of the largest postal installations in New York, Baltimore, Washington, Chicago and other major metropolitan areas.

This sprawling range of salaries leads us to conclude that the costs and benefits of the new retirement system should be distributed equally across the salary scale. We are convinced that the fairest and most equitable treatment of all Federal workers, with regard to the distribution of benefits, requires the duplication of the current CSRS structure to the maximum possible degree.

This, of course, dictates a new supplemental plan which incorporates an offset of 100 percent of the primary Social Security benefit, or as great an offset as practicable. The objective is to design a program which replaces the same percentage of preretirement earnings, regardless of job classification and rate of pay.

With respect to the voluntary capital accumulation plan, it is our position that it represents far too great a portion of the proposed retirement system under S. 1527. We do not believe that the assumed participation rates of 60 percent will ever be achieved for Postmasters, let alone for those groups of federal workers with lower earnings and less ability to generate voluntary contributions. More important, however, is the fact that, at any level of average participation, participation will not be evenly distributed. It is likely that participation rates will increase with salary, thus allocating a disproportionate share of the value to the highest paid classifications. For the same employer contribution, we prefer to allocate more pension compensation to basic benefits which are evenly distributed among all income levels and which are not contingent on the employees' ability to generate additional savings.

While we are not dogmatically opposed to capital accumulation programs, we regard them as a third and separate tier of pension development which should be secured only after a solid core of employer-paid benefits is obtained. The capital accumulation approach should be considered the next generation of pension plan provisions -- the kind which might, for instance, eventually supplement the CSRS benefits of incumbent Federal workers. At this stage, however, we oppose the capital accumulation approach as a substitute for cost-equivalent basic pension benefits.

Summary

The Postmasters' position on the issues treated hereinabove, as well as other design issues, is expressed in the following outline which sets forth the details of the supplemental retirement plan which we are willing to support:

• Pension Benefit Formula	1.78 percent of high-3 x years of service.
• Social Security Coordination	Less 100 percent of Social Security.
• Post-retirement Adjustments	100 percent of the CPI increase.
• Eligibility Requirements for Unreduced Benefits	Age 55 with 30 years, or Age 60 with 20 years, or Age 62 with 5 years.
• Social Security Supplement	Payable between ages 55 and 62; equal to the Social Security benefit payable at age 62.
• Vesting	5 years, payable beginning at age 62.
• Disability	Applicable to any person who is unable to perform in position during first 24 months; after 24 months, payable if totally and permanently disabled for any occupation; benefit equal to 60 percent of predisability pay less Social Security, or accrued retirement benefit, whichever is greater.
• Survivor Benefits	For preretirement death, 55 percent of accrued retirement benefits. For postretirement death, if elected, a reduction in the retirement annuity of 2.5 percent of first $3,600 annually, plus 10 percent on amounts over $3,600. Survivor benefit is calculated at 55 percent of annuity before reduction.
• Employee Contributions	None.
• Capital Accumulation Plan	None.

A pension program containing these central ingredients does not exceed the costs of the current CSRS and accomplishes several objectives critical to our organization:

(1) It sets pension compensation for Social Security-covered employees at the same level as non-Social Security-covered employees by equalizing employer pension costs between the two groups.

(2) It distributes the costs and benefits uniformly across job classifications and salary levels, thereby duplicating the structure of the present CSRS.

(3) It places the weight of costs and benefits on the basic benefit formula without the use of contingent benefits associated with a voluntary capital accumulation plan.

(4) It preserves the main features of the present CSRS in the areas of post-retirement adjustments, vesting, and early retirement.

We urge the Committee to give full and careful consideration to these essential objectives. A retirement program designed in conformance with these principles, provides the fairest and most equitable adjustment of taxpayers' and employees' interests at this point in time. Moreover, the preservation of pension compensation is critically important to the Postal Service if it is to continue to attract and retain qualified and capable managerial personnel.

Thank you, Mr. Chairman, and members of the Committee, for having provided this opportunity to express the views of the National Association of Postmasters of the United States.